

SPAA Change Proposal Form

This form should be used by SPAA Parties who wish raise a draft or formal Change Proposal and for SPAA members and other interested parties to return their comments on SPAA Change Proposals which have been circulated for consultation.

Originators - please complete Section A of this form and submit to spaachanges@electralink.co.uk. The CP will be issued in the next available Change Pack or the next Expert Forum meeting.

Respondents – please complete Section B of this form and return it to spaachanges@electralink.co.uk. Your response should include your assessment of the solution and comments on the Change Proposal drafting. If you reject the solution then please supply your reason for rejection and an alternative solution. Even if you reject a solution your responses should state whether the proposed implementation date is acceptable to your organisation. If it is not acceptable, please indicate the reasons why and an alternative date.

SECTION A: To be completed by originator

Document Control	
CP Status:	Final
For Issue To:	Change Pack
CP Number*:	08/124
Title of Change:	Revision of SPAA voting and funding arrangements (all Supplier Constituencies)
Version Number:	32.10
Change Pack Ref*:	11/08
Attachments:	Appendix A – Legal Drafting

* Assigned by SPAA Change Control Administrator

Originator details	
Party Name	Total Gas and Power Ltd
Party Change Administrator:	Gareth Evans
Constituency:	Domestic
Telephone number:	07500 964447
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CP Details	
SPAA Parties believed to be impacted:	Domestic Suppliers, 7 & I&C Suppliers & Transporters
Proposal to Change: <i>Any proposal to add, delete or amend a mandatory schedule will be subject to Authority Consent</i>	SPAA Agreement – various clauses.
Summary of Change:	Change of the SPAA voting process from a total weighted vote to a single vote for each Supplier <u>Party</u> Group.
Related CPs: <i>Please indicate if this CP is related to or impacts any other CP already in the SPAA or other industry Change Process</i>	None

Proposed Solution:

Introduction

The purpose of the suite of change proposals raised by TGP is to create an open and equitable governance framework for the Supply Point Administration Agreement (SPAA).

SPAA was originally conceived to manage the metering protocols that were developed at the start of metering competition. The intention of Ofgem was that this organisation would have a large degree of self-governance and so a voting system, based on meter points, was put in place to accommodate this.

This voting system has been seen to be unfairly slanted towards those Suppliers with large Domestic and SME Portfolios, against those Suppliers who have significant business interests in the medium and large I&C sector. Owing to this unfair bias, no I&C-focused supplier has joined SPAA.

Current Regime

Voting Arrangements

As alluded to above, the main hurdle to I&C Suppliers joining SPAA is the inequitable governance framework.

At present, all changes to the SPAA arrangements and baselines are subject to a vote by all SPAA Parties. Voting uses the number of supply points in a supplier's portfolio to give a weighted vote. Any change requires support of 65% of the relevant constituency.

The market shares that were published in Ofgem Energy Supply Probe findings in October

2008 indicates the current voting shares:

Supplier	Domestic (%)	I&C* (%)
British Gas	44	47.7
SSE	15	6.9
Eon	13	20.7
RWE NPower	12	8.3
Scottish Power	9	7.2
EDF	7	3.3
Big Six Total	100	94.1
Others	0	5.9

**The I&C market shares are based on SME meter point information. The low number of non-SME meter points compared to SME meter points means that the SME market shares can be used with good degree of accuracy to indicate probable voting shares.*

Even when taking into account the 20% CAP for any one Party's Weighted vote, the Big Six have such a large degree of influence in both the I&C and Domestic markets they can block any non-mandatory development which is not to their advantage. Similarly, though mandatory changes will ultimately be decided upon by the Authority, any vote constitutes a recommendation to the Authority and any decision contrary to that recommendation is appealable to the competition commission. It would therefore be impossible for I&C focused Shippers to implement any change that the dominant market players do not agree with.

At present the voting regime is adequate for the current market circumstances in the Domestic market. Domestic meter points are relatively homogeneous in their level of offtake and hence their relative economic value. For the I&C sector, the widely differing size and nature of customer sites means that meter points numbers are not a good indicator of that portfolio's economic worth.

Funding

At present funding costs are allocated according to the proportion of meter points in a Supplier's portfolio. Unlike the voting arrangements, there is no upper limit to the contribution from a single Party. Conversely there is no lower limit and so Suppliers with small numbers of meter points contribute very little. It can be argued that the current voting regime is mirroring to some extent the funding allocation mechanism, with the greatest contributors having the greatest say in future development.

Proposed Changes

Voting Arrangements

It is a key requirement of any possible accession of non-domestic Suppliers that the change mechanism is equitable and proportionate to the needs of SPAA. As shown above, the current framework does not meet either criteria. It is vital that all Suppliers feel that they have adequate control over the future development of SPAA. We therefore propose that the voting regime is modified to take into account. These changes will affect both the change control process and the election of the SPAA executive. -these needs.

The current weighted voting regime is replaced with an equal voting process, where each Group of Parties is given one vote. The concept of a Group of Parties, as opposed to Party, is used to prevent companies with multiple licences having multiple votes within the same constituency. The current constituency classification would remain, but would

be used only ~~for sector specific~~ changes that affect the relevant sector. For changes that affect all Suppliers, one constituency would be used, with each Supplier having one vote in this common constituency. For the avoidance of doubt for changes that affect one Supplier constituency exclusively (i.e Domestic or I&C change proposals), each Group of Parties will be entitled to vote in that constituency if they have at least one Party in that constituency.

In moving to a "one company, one vote" arrangement, the current threshold of 65% seems unnecessarily high. In order to align with other voting mechanisms used in other Gas and Power agreements, it is proposed to move to a simple majority vote.

The movement to a "one company, one vote" does create a possible issue with the election of the SPAA I&C or Large Domestic representatives, in which ties may occur. We suggest that in the event of such a tie, then the two candidates with the greatest number of licenses voting for them would be elected. For Small Domestic Representatives, then the candidate with the greatest number of licenses voting for them would be elected.

For the avoidance of doubt these changes are proposed for the Supplier Constituencies. No change is proposed for the Transporter's constituency.

Funding

If the voting arrangement is adjusted to provide I&C Suppliers with more say in the development of SPAA, it seems appropriate that the funding arrangements are likewise adjusted. The current arrangements have no concept of a de minimus contribution towards the costs, so those Suppliers with few meter points will contribute very little to the costs of SPAA.

In tandem with the change to the voting arrangements we propose that each Party ~~holding an I&C licence with less than 1000 meter points does not contribute towards the costs of SPAA, to encourage accession by smaller Suppliers. Those Parties~~ who have less than 1,000,000 meter points and a minimum of ~~4~~5000 meter points make a fixed payment of £500 a month, for the duration of their membership. For simplicity these license holders would continue to contribute via the proportional funding mechanisms as well. Those Suppliers with greater than 1,000,000 meter points will contribute via the current proportional funding arrangement for any remaining costs. Those suppliers with a Domestic or a Domestic/I&C supplier licence, or an I&C supplier licence with less than 5,000 meter points, would continue to contribute exclusively via the current proportional funding arrangement

We would expect the number of I&C Parties to increase if these changes are implemented, further reducing the proportional funding need.

Proposed Implementation Technique:

We have provided some initial thoughts on changes to the legal text. We would stress that these proposed changes are indicative only and that the proposed high level solution should take precedence in the event of any conflict.

Please see attached document.

Proposed Implementation Date:

There do not appear to be any significant technical hurdles to implementing this modification and so the modification can be implemented as soon as direction from the Authority is received

Business Justification for change:

Undertaking these changes will create an equitable governance and funding framework, allowing I&C Suppliers to consider acceding to the SPAA purely on the basis of its commercial benefits

How will the CP facilitate the SPAA relevant objectives:

Refer to Standard Condition 34A of Gas Suppliers Licence

(a) the development, maintenance and operation of an efficient, coordinated and economical change of supplier process;

We foresee no impact on the change of supplier process.

(b) the furtherance of effective competition between Gas Suppliers and between relevant agents;

We do not believe that this modification will facilitate this relevant objective.

(c) the promotion of efficiency in the implementation and administration of the supply point administration arrangements; and

The accession of I&C Suppliers will allow their inclusion in any discussions in developing appropriate solutions for the Metering Market, in particular the administration and development of Metering protocols to facilitate AMR roll-out. These changes therefore facilitate this relevant objective.

(d) so far as is consistent with sub-paragraphs (a), (b) and (c), the efficient discharge of the licensee's obligations under this licence.

We do not believe that this modification will facilitate this relevant objective.

Authority Consent Required:

Yes

SECTION B: To be completed by respondent

Respondent details

Name:

Company:	
Telephone number:	
Email address:	

Response	
Issue Definition:	Support / Reject / No Interest
Proposed Solution:	Support / Reject / Alternative Solution
Implementation Date:	Support / Reject / Alternative Solution
Implementation Technique	Support / Reject / Alternative Solution
Alternative Solutions and / or Comments	